

NCUA News

Large CUs Performing Well

Federally insured credit unions with assets over \$50 million showed solid growth through the third quarter of 1997, with increases in assets, loans, shares, and investments reflecting the strong national economy.

The 1,284 large, federally insured credit unions submitted financial data September 30, 1997, reporting the following year-to-date growth.

- Assets increased 6.2 percent, up from \$240.4 to \$255.3 billion;
- Loans increased 7.3 percent, up from \$156.7 to \$168.2 billion;
- Shares increased 5.8 percent, up from \$211.2 to \$223.5 billion;
- Investments increased 3.9 percent, up from \$72.7 to \$75.6 billion;
- Loan to share ratio moved up from 74.2 to 75.2 percent; and
- Net capital expanded from 11.0 to 11.3 percent.

Lending Gains

Similar to the mid-year figures for all federally insured credit unions, used auto lending is the growth leader, gaining 16.3 percent by increasing from \$24.5 to \$28.5 billion at large credit unions in the first nine months of 1997.

Continuing to expand significantly, real estate loans still represent the largest dollar amount of loans made by the nation's largest credit unions. First mortgage loans gained 10.4 percent, increasing from \$38.5 to \$42.5 billion,

and other real estate loans, such as second mortgages and home equity loans, grew 11.7 percent, from \$19.6 to \$21.9 billion through September 30.

Saving Accounts Expand

While all share accounts expanded during the first nine months of the year, two major savings categories — share certificates and money market shares — posted significant gains. Share certificates grew 11 percent, increasing from \$52.5 to \$58.3 billion. Money market shares gained 12.2 percent, increasing from \$24.5 to \$27.4 billion.

Investments Grow Slowly

Investments grew from \$72.8 to \$75.6 billion or 3.9 percent through September 30. Corporate credit union deposits expanded 10.9 percent and continuously declining CMO investments contracted 9.4 percent.

Key Ratios

The capital ratio increased from 11 to 11.3 percent, while net capital increased from 10.4 to 10.6 percent among large credit unions this year. In recent years, the loan to share ratio has moved from 70.4 percent at December 1995 to 75.2 percent at September 1997. This expanding ratio shows that credit unions are continuing to use their share growth to fund increased lending instead of making additional investments.

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Budget Increase Approved for 1998

The NCUA Board approved a 1998 budget of \$109.3 million, a \$9.5 million increase over 1997.

Employee pay and benefits comprise 55 percent of the increase, 32 percent is specified for Year 2000 compliance, and 9 percent will be used to expand the corporate credit union program.

The 1998 budget provides for 51.25 new positions that are needed in large part to deal with the Year 2000 computer issue and to enhance corporate credit union supervision.

States Realigned

Beginning January 1, 1998, West Virginia will be supervised by NCUA's Region IV office, while Utah and Wyoming will be supervised by Region VI. The realignment was recommended based on the number of credit unions each regional office is responsible for supervising.



Happy Holidays



News Briefs

- **Possible Decision Dates** — The Supreme Court only issues decisions when it is in session, which means a limited number of days. The Court could issue a decision in NCUA's field of membership case December 10 or 15. Next month the possible days are January 13, 14, 20, 21, or 26. The February dates are the 24 and 25.
- **Revolving Loans** — The Community Development Revolving Loan Program has 67 active loans totaling \$6.9 million. Eight applications for \$1.8 million are in process. Seven technical assistance grants for \$24,446 were provided in November and 70 grants totaling \$132,333 have been issued in 1997.
- **Charter Conversions** — Since July 31, 1996, NCUA has received 99 applications and processed 70 from federal credit unions wishing to convert to a state charter. A total 225 credit unions have applied and 56 have completed the conversion process to a community charter. Seven credit unions have active applications to convert to mutual savings associations or banks, while none have completed the conversion process.



NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Yolanda T. Wheat, Board Member
Dennis Dollar, Board Member

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Year 2000 Vendor Communications

Many credit unions rely heavily upon their vendors for electronic processing needs. However, relying on vendors will not reduce the credit union's responsibility for ensuring that its systems are Year 2000 (Y2K) compliant. To the contrary, each credit union is ultimately responsible for ensuring their various systems can handle Y2K transactions correctly.

In order to manage Y2K in a vendor supported environment, it is crucial that credit unions determine where their vendors are in their Y2K conversion efforts. It is also critical for credit unions to monitor their vendor's progress towards Y2K compliance on a periodic basis. The following are some questions credit unions should ask their vendors:

1. What is your definition of Y2K compliance?
 2. We use the attached list of products from your company. Which products are Y2K compliant and which are non-compliant?
 3. For products which are non-compliant:
 - a) Will they be made compliant?:
 - i) If yes, when will they be compliant?
 - ii) If no, do you have a similar service product which is, or will be, Y2K compliant that can substitute?
 - b) What is the timeline, including milestone dates, for renovating the non-compliant products?
 4. Where are each of the products in your Y2K process (i.e. renovation, testing, implementation phases)? How far along is each product?
 5. Which products are certified compliant? Is this an internal certification or an independent third-party certification?
 6. What renovation method did you use to make products Y2K compliant?
 - a) Date Expansion;
 - b) Windowing;
 - c) Compression;
 - d) Other (describe).
 7. If using the windowing technique, which products use a fixed window and which use a sliding window? What are the pivot (base) years for each system?
 8. What process must I use to bring my current system into compliance? Is the fix a one time, full installation or must I install prior updates before installing the Y2K update?
 9. Will there be a charge to upgrade to a compliant system, if so, how much?
 10. How long will it take to install the upgrade and complete the conversion process?
 11. What minimum environment (software/hardware) requirements must I have to ensure the system runs correctly in a Y2K compliant manner?
 12. How do I test my system to check Y2K compliance? If I accelerate my system dates, will I experience license and password expiration problems, lost data, or any other problems?
 13. Are you working with third-party vendors to ensure that their products and the interface with your products are Y2K compliant? If yes, what are those third-party systems and which company is responsible for Y2K compliance.
- There are many more questions credit unions may need to discuss with their vendors based upon the credit union's internal environment (hardware/software platforms and configurations) and external environment (interfaces with outside companies, agencies, customers, etc.). Credit union management ultimately has the responsibility to ensure that all systems, *and their interfaces*, operate in a Y2K compliant manner. To achieve this goal, credit unions must open a line of communication with their vendors and maintain periodic contacts with them.

BOARD ACTIONS

Proposals Ask for Clear, Thorough Disclosures

To ensure that credit union members clearly understand the ramifications of converting or merging to another type of financial institution, NCUA issued proposed amendments to **Part 708a** of the *NCUA Rules and Regulations*, with a 60-day comment period. The proposal would require that specific facts, written in clear, easy to understand language, be placed on the cover page of disclosure statements provided to members when a federal credit union is attempting to convert or merge to another type of financial institution.

The Board also issued a proposal, with a 60-day comment period, to amend **Part 708b** of the *NCUA Rules and Regulations*. It recommends that if a credit union plans to convert to private insurance, its disclosure notice must clearly notify members that the private insurance fund insuring their accounts is not backed by the full faith and credit of the United States government.

Interim Rule Amends Sections of 703 Investment Rule

The NCUA Board took the following actions, effective January 1, 1998, to clarify several provisions included in the final investment rule adopted earlier this year.

Section 703.50(a) is amended to allow a federal credit union to use a CD broker to locate investment alternatives and compensate the broker for the service. The credit union must send the funds directly to the institution and not through the broker or other third party.

Section 703.60(c) is amended to require only that securities be kept by entities regulated by the Securities Exchange Commission or depository institution regulators. The prohibition of safe-keeping by the selling broker-dealer is eliminated.

Section 703.80(a) adds a provision that a federal credit union need not obtain two prices, or a price from an industry-recognized information provider, for a new issue of a security purchased at par or at original issue discount. Comments are welcome on the interim final rule for 60 days.

NCUA Extends Part 704 Compliance 120 Days

The NCUA Board voted to extend the January 1, 1998, compliance deadline to implement the amended Part 704 rule that was approved earlier this year. While retaining the same January 1, 1998, effective date, corporate credit unions need not comply with the regulation until May 1, 1998.

This will enable corporates more time to receive final approval for any expanded authorities they are requesting of the NCUA Board. Expanded authorities enable corporates, which implement stringent controls, to manage more risk on their balance sheets, particularly in their investment portfolios.

Community Charter Conversions

Hobbs Municipal Schools FCU, a \$18 million credit union in Hobbs, New Mexico, gained authority to convert from occupational to a community charter to serve the 55,765 people who live, work, worship, attend school, and businesses in Lea County.

Lakeview FCU, Ashtabula, Ohio, gained authority to convert from occupational to a community charter. The \$22 million credit union's primary sponsor has declined to 100 employees. This conversion allows the credit union to offer membership to Ashtabula County's 99,000 residents.

Charleston Area FCU of S.C., was authorized to convert from an \$26.5 million occupational charter to a community-based charter able to serve the 275,000 people who live, work, or worship, and businesses in Charleston County, S.C.

Federal to State Charter Conversion

The NCUA Board granted \$32 million **General Federal Credit Union**, Fort Wayne, Ind., authority to convert to an Indiana state-chartered, privately insured credit union provided a majority of at least 20 percent of members approve.

Federal to Private Insurance Conversions

The Cleveland, Ohio, \$5 million **City Link FCU** gained authority to merge with state-chartered \$54 million Greater Cleveland Firefighters Credit Union and convert to their private insurance provider. A majority of at least 20 percent of members must vote to approve the merger.

State-chartered **Mt. Carmel M.B.C. Credit Union**, Dayton, Ohio, was authorized to merge with Dayton's Corinthian Baptist Church Credit Union and convert to their private insurer. A members vote has already sanctioned merging and converting insurance at the \$41,000 institution.

World Council Recognizes NCUA



Antonio Gayoso, executive director of the North American Regional Office of the World Council of Credit Unions, presents Chairman Norman E. D'Amours with a plaque recognizing NCUA's contribution to the Polish credit union community. In 1996, NCUA staff spent two weeks in Poland helping structure a supervisory oversight program and share ideas on organizing credit unions. This year, NCUA hosted Poland's director of credit union supervision and director of examinations for three weeks. Poland has 168 credit unions, with \$80 million in assets, serving 154,000 members.

LEGISLATIVE SUMMARY

First Session of 105th Congress

The first session of the 105th Congress ended November 13, 1997. After completing work on the final three fiscal-year 1998 spending bills, many of the most contentious issues were postponed until lawmakers return January 27, 1998.

Because the 105th Congress continues through 1998, all pending measures can be considered when Congress reconvenes. A status report on many of the legislative issues of interest to NCUA and credit unions follows.

Revolving Loan Fund

The NCUA Community Development Revolving Loan Fund appropriation now totals \$8 million. The VA, HUD and Independent Agencies Appropriations Law for 1998, PL 105-75, signed by President Clinton October 27, 1997, *includes an additional \$1 million for the CDCU Revolving Loan Fund*. The funding was not in the original House or Senate versions of the bill, but VA-HUD Appropriations Chairman Jerry Lewis (R-CA) and Rep. Marcy Kaptur (D-OH) persuaded other conferees to add the appropriation during the House-Senate conference.

Board Members Confirmed

On October 9, the Senate voted to confirm Dennis Dollar and Yolanda Wheat as NCUA Board members. Mr. Dollar, whose term expires in April, 2003, was nominated July 31, 1997. The Senate Banking Committee held a hearing on his nomination September 30. Mrs. Wheat, whose term expires in August 2001, has been serving as a recess appointee since April 1996.

Field of Membership Legislation

H.R. 1151, the "Credit Union Membership Access Act," introduced by House Banking Committee members Paul Kanjorski (D-PA) and Steve LaTourette (R-OH), now has 130 cosponsors. Among the cosponsors are 32 Republicans, 97 Democrats and 1 Independent. Twelve cosponsors (9 Republicans, 3 Democrats) and are also House Banking Committee members. However, with the death of Rep. Walter Capps (D-CA), the resignations of Reps. Henry Gonzalez (D-TX) and Tom Foglietta (D-

PA), and the impending retirement of Rep. Ron Dellums (D-CA), the number of cosponsors will fall to 126 before Congress reconvenes unless more are added.

On November 9, Rep. John LaFalce (D-NY), floated his suggestion for a proposed solution to the FOM debate. Rep. LaFalce will become the ranking Democrat on the House Banking Committee in January, after Rep. Gonzalez retires. Rep. LaFalce inserted his draft bill, the "Credit Union Growth and Improvement Act," into the Congressional Record but has not formally introduced the measure. In his statement, Rep. LaFalce noted that he was putting forth his proposal as a "beginning point for future discussion." As proposed, Rep. LaFalce's draft bill would:

- amend the FCU Act to allow membership in FCUs to be comprised of "1 or more groups," but would require that each group be located in the same "well-defined and limited community";
- grandfather FOM expansions which occurred before October 25, 1996;
- restrict new FOM expansions to employee groups of 1,000 or less, occupational groups of 2,000 or less and association groups of 5,000 or less;
- require the NCUA Board to determine that, among other things, the expansion will not result in "serious competitive injury" to another credit union or "unreasonable competition for other depository institutions" before approving any FOM expansion;
- lift the FOM restrictions for new, merged, or liquidated credit unions;
- require the NCUA Board to establish and enforce standards for compliance with the Community Reinvestment Act (CRA) for credit unions with assets of \$25 million or more *and* more than one group in their field of membership; and
- require the President to consider experience with financial institutions other than credit unions and state regulatory experience when nominating NCUA Board members.

Year 2000

Both the House and Senate Banking Committees expressed growing interest in

the ramifications of Year 2000 (Y2K) computer problems for financial institutions. The Financial Services and Technology Subcommittee of the Senate Banking Committee held a hearing on Y2K issues July 30. NCUA Chairman Norm D'Amours and the other financial institution regulators testified. (See August NCUA News)

After the hearing, Subcommittee Chairman Robert Bennett (R-UT) asked the General Accounting Office to evaluate each regulator's degree of preparedness for the Y2K conversion. NCUA was the first agency to be evaluated and GAO made numerous suggestions to improve the agency's Y2K efforts.

The House Banking Committee held a hearing on the Y2K issue November 4. The only regulators that testified were the FDIC and the OCC.

Senator Bennett introduced a Y2K measure November 10, while House Banking Committee Chairman Jim Leach (R-IA) plans to introduce a House bill early next session. Senator Bennett's bill, S. 1518, applies only to publicly traded companies and does not affect credit unions.

Rep. Leach's staff is drafting a Y2K bill with a number of provisions of interest to NCUA. The House proposal would give NCUA authority over vendors for Y2K purposes and require all regulators to conduct seminars and develop model solutions for Y2K compliance. The House bill would also allow financial institutions to copy software for the limited purpose of Y2K compliance and clarify that financial institutions may not be held liable for technical violations of law due to a Y2K problem.

Bankruptcy

On September 17, Banking (and Judiciary) Committee member Bill McCollum (R-FL) introduced H.R. 2500, the "Responsible Borrower Bankruptcy Protection Act of 1997." Rep. Rick Boucher (D-VA) cosponsored this bill. It is designed to restrict the use of Chapter 7 Bankruptcy for consumers whose income is equal to or more than 75 percent of the national median income level. The bill would require that consumers file Chapter 13 Bankruptcy instead. (Creditors prefer Chapter 13 to

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Chapter 7 because Chapter 7 allows the consumer to walk away from debts, while Chapter 13 requires a repayment plan.)

As proposed, consumers with sufficient monthly net income (after subtracting secured debt payments and living expenses) would be required to file under Chapter 13 and pay off at least 20 percent of total unsecured debt within five years.

Audit Requirement

Although his bankruptcy bill was welcomed by credit unions, Rep. McCollum's efforts this year were not entirely favorable to credit unions. Rep. McCollum also introduced H.R. 2552, the "Credit Union Audit Improvement Act." H.R. 2552 would require all credit unions with \$10 million or more in assets to have an annual audit by a CPA. Rep. Spencer Bachus (R-AL) is the other original cosponsor of H.R. 2552.

In response to the Congressman's request for comments, Chairman D'Amours wrote to Rep. McCollum August 8 to explain that this measure is unnecessary and poses an unfair burden on credit unions.

Based on conversations NCUA has had with both Republican and Democratic staff, there is little support for H.R. 2552. The comparable audit requirement for banks applies to institutions with \$500 million or more in assets.

Debit Card Losses

Several House and Senate bills, introduced this year, would limit consumer liability for unprotected debit cards. These cards are increasingly issued to consumers who do not realize that unlike traditional ATM cards, the debit card can access their bank accounts *without* a PIN.

The Senate version of the bill, S.1203, introduced September 23 by Banking Committee Chairman Alfonse D'Amato (R-NY), would require that debit cards, which can access a consumer's account with only a signature, be accompanied by a warning that the card does not require a unique identifier for use and that loss or theft of the card could result in unauthorized access to the consumer's account. S. 1203 would also reduce the time period for correcting errors from 10 to 5 business days, and limits liability for unauthorized fund transfers to \$50.

In the House, Rep. Chuck Schumer (D-NY), introduced H.R. 2234 July 23. It would allow unprotected debit cards to be distributed only if issuers comply with validation requirements applicable to unsolicited credit cards. Also, it would limit liability for unauthorized fund transfers to the liability imposed for unauthorized use of credit cards.

Flood Insurance

Legislation authorizing the National Flood Insurance Program, which implements mandatory flood insurance purchase requirements for homeowners in certain high-risk areas, expired on September 30, 1997. The flood insurance reauthorization was attached to a bill that seemed certain to be enacted before the end of the session, but last-minute amendments by the Senate, after the House adjourned, made final passage impossible. Thus, the earliest the reauthorization will be enacted is February.

Government Performance and Results Act

The Government Performance and Results Act (GPRA), PL 103-62, required all agencies, including NCUA, to submit strategic plans to Congress by September 30, 1997. Throughout the year, agency officials consulted with Congressional staff in developing the plan, and the General Accounting Office found that a draft of NCUA's plan largely satisfied GPRA's requirements.

Former Vice Chairman Shirlee Bowné, along with other financial institution regulators, testified at a July 29 House Banking Committee hearing on GPRA and the GAO evaluations of agency draft plans. Based on the feedback from Congress, the GAO, and the Credit Union community, NCUA revised its draft and submitted the final plan on September 30.

NCUA Board Members Sworn In



Nov. 5—NCUA Board Member Yolanda Townsend Wheat was sworn into office by Vice President Al Gore. The Vice President administered the oath of office to Wheat during a private ceremony in the Roosevelt Room at the White House. Wheat's family and staff attended. Wheat is pictured here with the Vice President and her staff members Lisa Gruenloh (left) and Margaret Broadway.



Photo by Kathy Scarbrough

Oct 17—U.S. District Court Judge Dan M. Russell administers the oath of office to Board Member Dennis Dollar as his wife, Janie, holds the bible. The ceremony was held at Gulfport VA Federal Credit Union, Gulfport, Mississippi, the credit union Dollar was managing when he was appointed to the NCUA Board.



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Conversion and Expansion Guidelines Available



<http://www.ncua.gov>

If your credit union is considering expanding or converting its charter, the *NCUA Chartering and Field of Membership Manual* (IRPS 94-1) provides detailed guidance of NCUA requirements. The manual is on NCUA's Web site at www.ncua.gov. Use a Visa or MasterCard to obtain a printed copy with the 1996 update for \$6.50 by FAX, at 703-518-6433, or phone at 703-518-6340.

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